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8 Attorney for Defendant
9 Run Ping "Flora" Zhou

10 UNITED STATES DISTRICT COURT
11 NORTHERN DISTRICT OF CALIFORNIA
12 SAN FRANCISCO DIVISION

13 U.S. COMMODITY FUTURES
14 TRADING COMMISSION AND THE
15 COMMISSIONER OF
16 CORPORATIONS OF THE STATE OF
17 CALIFORNIA,

18 Plaintiffs,

19 vs.

20 NATIONAL INVESTMENT
21 CONSULTANTS, INC., a California
22 Corporation, PACIFIC BEST GROUP,
23 LTD., aka PACIFIC BEST COMPANY
24 LTD., a British Virgin Islands
25 Corporation, YI KERRY ZHOU, an
26 individual, RUN PING ZHOU
27 a.k.a.FLORA ZHOU and WEI M. TSE,
28 aka RAYMOND TSE, an individual,

Defendants.

And

THERESA C. WONG, an individual,

Relief Defendant.

CASE NO. 05-2641 JSW

**ANSWER OF DEFENDANT RUN PING
"FLORA" ZHOU TO PLAINTIFF
COMMODITY FUTURES TRADING
COMMISSION AND STATE OF
CALIFORNIA'S COMPLAINT FOR
PERMANENT INJUNCTIVE RELIEF**

Defendant Run Ping "Flora" Zhou answers the allegations contained in the Complaint for Preliminary and Permanent Injunctive Relief filed by Plaintiff Commodity Futures Trading Commission ("CFTC") and the State of California ("State") as follows:

I. SUMMARY

1. Defendant Run Ping "Flora" Zhou ("Zhou") denies that South China Investments, Inc. acted as a common enterprise with National Investment Consultants, Inc. ("NICI") and denies that any of the defendant entities operated a foreign currency "scam" in San Francisco, California or at any other location. Zhou further denies that she falsely misrepresented the profit potential from trading foreign currencies; and denies that she failed to disclose the risk of loss to potential customers; and denies that she failed to disclose the lack of experience of any account executive associated with SCII or NICI. Further, Zhou denies that she was under a legal obligation to disclose the fact to potential customers of SCII or NICI that she was the subject of prior California litigation which resulted in an injunction against her. As to the remaining allegations of Paragraph 1, defendant Zhou is without knowledge or information sufficient to form a belief as to the truth of such allegations.

2. Defendant Zhou denies that she made material misrepresentations and/or omissions or that she engaged in acts and practices which violate the Commodity Exchange Act's anti-fraud provisions. The remaining allegations of Paragraph 2 state a conclusion of law that requires no response.

3. Paragraph 3 states a conclusion of law that requires no response.

4. Paragraph 4 states a conclusion of law that requires no response.

5. Paragraph 5 states a conclusion of law that requires no response.

II. JURISDICTION

6. Paragraph 6 states a conclusion of law that requires no response.

7. Paragraph 7 states a conclusion of law that requires no response.

8. Paragraph 8 states a conclusion of law that requires no response.

9. Paragraph 9 states a conclusion of law that requires no response.

III. INTRADISTRICT ASSIGNMENT AND VENUE

10. Paragraph 10 states a conclusion of law that requires no response.

IV. THE PARTIES

A. Plaintiffs

1 11. Paragraph 11 states a conclusion of law that requires no response.

2 12. Paragraph 12 states a conclusion of law that requires no response.

3 **B. Defendants**

4 13. Defendant Zhou denies that there is an "enterprise" between SCII and NICI, but on
5 information and belief, avers that these two defendant companies introduced customers to
6 defendant Pacific Best Group, Ltd. ("PBGL") for the purpose of trading spot foreign currency
7 transactions. Zhou is without knowledge or information sufficient to form a belief as to the
8 truth of the remaining allegations of Paragraph 13.

9 14. Defendant Zhou admits that she was an employee of NICI for a period of time but
10 has not been so employed since December 2004. She further admits that she solicited investors
11 to open accounts to trade foreign currencies with NICI. On information and belief, Zhou was
12 aware that NICI customers were introduced to, and had their spot foreign currency trading
13 accounts carried by, PBGL. As to the remaining allegations of Paragraph 13, defendant ZHOU
14 is without knowledge or information sufficient to form a belief as to the truth of such
15 allegations.

16 15. Defendant Zhou admits that SCII was incorporated on November 9, 2000 and had
17 its principal place of business at 300 Montgomery Street, in the city and county of San
18 Francisco, California. Zhou avers that SCII was a California corporation in good standing until
19 on or about July 31, 2004 when it ceased doing business; SCII's certificate of dissolution was
20 filed on August 4, 2004; and SCII was dissolved on or about October 15, 2004. Zhou admits
21 that SCII was not registered with the Commodity Futures Trading Commission (hereinafter the
22 "Commission") and is unaware of any legal obligation for it to be so registered. Defendant
23 Zhou denies that SCII and NICI had bank accounts in common but admits that when SCII
24 closed, some SCII employees went to work for NICI. Defendant Zhou further denies that SCII
25 and NICI shared the same telephone numbers and although NICI opened its offices at the same
26 street address as SCII when it was operating, NICI rented a different suite. Defendant Zhou is
27 without knowledge or information sufficient to form a belief as to the truth of the remaining
28 allegations of Paragraph 15.

16. Defendant Zhou is without knowledge or information sufficient to form a belief as
to the truth of the allegations of Paragraph 16.

1 17. Defendant Zhou admits that she was a manager and the sole shareholder of SCII but
 2 had no ownership interest in, and was merely an employee of, NICI. Zhou, on information and
 3 belief, admits the remaining allegations of paragraph 17.

4 18. Defendant Zhou denies that Defendant Wei M. Tse, a.k.a. Raymond Tse ("TSE")
 5 had any ownership interest in SCII and is without knowledge or information sufficient to form
 6 a belief as to the truth of the remaining allegations of Paragraph 18.

7 **C. Relief Defendant**

8 19. Defendant Zhou is without knowledge or information sufficient to form a belief as
 9 to the truth of the allegations of Paragraph 19.

10 **FACTUAL BACKGROUND**

11 20. Defendant Zhou admits that she was the sole shareholder and president of, and
 12 marketing manager at, SCII, but denies that SCII had any relationship with NICI, other than the
 13 fact that in or around July 2004, when SCII ceased doing business, SCII sold its customer list to
 14 NICI. Zhou further avers that NICI and SCII did not have any corporate relationship, or any
 15 officers, directors or bank accounts in common. Defendant Zhou denies that she operated a
 16 foreign currency business while associated with NICI and denies that SCII and NICI ever sold
 17 foreign currency futures contracts to the retail public. Zhou is without knowledge or
 18 information sufficient to form a belief as to the truth of the remaining allegations of Paragraph
 19 20.

20 21. Defendant Zhou denies the allegations of Paragraph 21 and avers that SCII never
 21 abandoned its corporate name, nor did SCII ever change its name to NICI.

22 22. Defendant Zhou admits that SCII had a web site, www.southchinainvestments.com
 23 (now defunct) but is without knowledge or information sufficient to form a belief as to the truth
 24 of the remaining allegations of Paragraph 22.

25 23. Defendant Zhou denies that she has personally advertised to the public through any
 26 websites. As to the remaining allegations of Paragraph 23, defendant ZHOU is without
 27 knowledge or information sufficient to form a belief as to the truth of such allegations.

28 24. Defendant Zhou is without knowledge or information sufficient to form a belief as
 to the truth of the allegations of Paragraph 24.

25. Defendant Zhou admits that she provided training on how to trade spot foreign
 currencies to others but denies that the training was minimal. As to the remaining allegations

1 of Paragraph 25, defendant ZHOU is without knowledge or information sufficient to form a
2 belief as to the truth of such allegations.

3 26. Defendant Zhou denies the allegations of Paragraph 26 in their entirety.

4 27. Defendant Zhou is without knowledge or information sufficient to form a belief as
5 to the truth of the allegations in paragraph 27.

6 28. Defendant Zhou admits the allegations of Paragraph 28.d. but denies the remaining
7 allegations of Paragraph 28 in their entirety.

8 29. Defendant Zhou admits that she assisted in the training of other salespersons at
9 NICI and customers. Defendant Zhou denies the remaining allegations of Paragraph 29 in their
10 entirety.

11 30. Defendant Zhou denies the allegations of Paragraph 30 in their entirety.

12 31. Defendant Zhou admits that persons she assisted in training became salespersons
13 and some became customers of SCII and NICI, trading through PBGL, and admits that the
14 minimum deposit to open an account at PBGL was \$20,000. As to the remaining allegations of
15 Paragraph 31, defendant ZHOU is without knowledge or information sufficient to form a belief
16 as to the truth of such allegations.

17 32. Defendant Zhou denies the allegations of Paragraph 32 in their entirety

18 33. Defendant Zhou denies the allegations or is without sufficient information to form a
19 belief as to the truth of the allegations of Paragraph 33 with the exception that Zhou admits that
20 on or about October 29, 2004, a customer came to the NICI's offices and stated that she wanted
21 to place additional funds in her account and politely asked Zhou if she could have two strong
22 men accompany her across the street to Bank of America to withdraw some funds; the
23 customer stated that she was concerned about being robbed. Zhou accompanied her and two
24 account executives from NICI to assist the customer in making the withdrawal to increase her
25 deposit in her PBGL account. The customer thanked Zhou most politely for helping her.

26 34. Defendant Zhou is without knowledge or information sufficient to form a belief as
27 to the truth of the allegations of Paragraph 34, except that Zhou admits that SCII and NICI
28 functioned as introducing brokers to PBGL, which accepted customer funds, maintained the
accounts of customers, accepted customer orders from SCII and NICI and issued customers
daily confirmation and month end statements.

1 35. Defendant Zhou is without knowledge or information sufficient to form a belief as
2 to the truth of the allegations of Paragraph 35.

3 36. Defendant Zhou is without knowledge or information sufficient to form a belief as
4 to the truth of the allegations of Paragraph 36.

5 37. Defendant Zhou is without knowledge or information sufficient to form a belief as
6 to the truth of the allegations of Paragraph 37.

7 38. Defendant Zhou is without knowledge or information sufficient to form a belief as
8 to the truth of the allegations of Paragraph 38. Further, Paragraph 38 states conclusions of law
9 that require no response.

10 39. Defendant Zhou is without knowledge or information sufficient to form a belief as
11 to the truth of the allegations of Paragraph 39. Further, Paragraph 39 states conclusions of law
12 that require no response.

13 40. Paragraph 40 states conclusions of law that require no response

14 41. Defendant Zhou is without knowledge or information sufficient to form a belief as
15 to the truth of the allegations of Paragraph 41. Further, Paragraph 41 states conclusions of law
16 that require no response.

17 42. Defendant Zhou is without knowledge or information sufficient to form a belief as
18 to the truth of the allegations of Paragraph 42. Further, Paragraph 42 states conclusions of law
19 that require no response.

20 43. Defendant Zhou is without knowledge or information sufficient to form a belief as
21 to the truth of the allegations of Paragraph 43. Further, Paragraph 43 states a conclusion of law
22 that requires no response.

23 44. Defendant Zhou is without knowledge or information sufficient to form a belief as
24 to the truth of the allegations of Paragraph 44.

25 45. Defendant Zhou neither admits nor denies Paragraph 45, as it is a bridge paragraph
26 incorporating prior paragraphs and Defendant Zhou therefore incorporates all of her earlier
27 responses to this Paragraph.

28 46. Paragraph 46 states a conclusion of law that requires no response.

 47. Paragraph 47 states a conclusion of law that requires no response.

1 48. Defendant Zhou neither admits nor denies Paragraph 48, as it is a bridge paragraph
2 incorporating prior paragraphs and Defendant Zhou therefore incorporates all of her earlier
3 responses to this Paragraph.

4 49. Paragraph 49 states conclusions of law that require no response.

5 50. Paragraph 50 states a conclusion of law that requires no response.

6 51. Defendant Zhou neither admits nor denies Paragraph 51, as it is a bridge paragraph
7 incorporating prior paragraphs and Defendant Zhou therefore incorporates all of her earlier
8 responses to this Paragraph.

9 52. Defendant Zhou denies the allegations of Paragraph 52 in their entirety.

10 53. Defendant Zhou denies the allegations of Paragraph 53 in their entirety.

11 54. Defendant Zhou denies the allegations of Paragraph 54 in their entirety.

12 55. Defendant Zhou denies the allegation that she committed any fraudulent conduct
13 and is without knowledge or information sufficient to form a belief as to the truth of the
14 remaining allegations of Paragraph 55.

15 56. Defendant Zhou denies the allegation that any customers she dealt with at SCII and
16 NICI were "victimized" by her conduct and denies that she was part of any fraudulent scheme.
17 Zhou is without knowledge or information sufficient to form a belief as to the truth of the
18 remaining allegations of Paragraph 56.

19 57. Defendant Zhou neither admits nor denies Paragraph 57, as it is a bridge paragraph
20 incorporating prior paragraphs and Defendant Zhou therefore incorporates all of her earlier
21 responses to this Paragraph.

22 58. Paragraph 58 states a conclusion of law that requires no response

23 59. Paragraph 59 states a conclusion of law that requires no response

24 60. Paragraph 60 states a conclusion of law that requires no response

25 61. Defendant Zhou is without knowledge or information sufficient to form a belief as
26 to the truth of the allegations of Paragraph 61. Further, Paragraph 61 states a conclusion of law
27 that requires no response.

28 62. Paragraph 62 states a conclusion of law that requires no response

 63. Defendant Zhou neither admits nor denies Paragraph 63, as it is a bridge paragraph
incorporating prior paragraphs and Defendant Zhou therefore incorporates all of her earlier
responses to this Paragraph.

1 64. Paragraph 64 states conclusions of law that require no response.

2 65. Defendant Zhou denies the allegations of Paragraph 65 in their entirety.

3 66. Defendant Zhou is without knowledge or information sufficient to form a belief as
4 to the truth of the allegations of Paragraph 66 as framed, and as it relates to other defendants.
5 Defendant Zhou denies failing to make material information available to investors or
6 prospective investors. Paragraph 66 also states a conclusion of law that requires no response.

7 67. Defendant Zhou denies the allegations of Paragraph 67 in their entirety.

8 68. Paragraph 68 states a conclusion of law that requires no response

9 **RELIEF REQUESTED**

10 69. Defendant Zhou requests that this Court dismiss the CFTC and State of California's
11 Complaint against her in its entirety.

12 70. In the event this Court dismisses the Complaint against Defendant Zhou, she
13 respectfully requests that this Court order the CFTC to remove all references to her on its
14 public website and further order the CFTC and the State of California to post the Order on their
15 public websites.

16 **AFFIRMATIVE DEFENSES**

17 **(Failure to State a Claim for Relief)**

18 71. Defendant Zhou denies that she has committed any violations as alleged in the
19 Complaint to merit the imposition of a preliminary or permanent injunction. The complaint
20 fails to allege a sufficient pattern, practice or threat of ongoing conduct to merit the imposition
21 of an injunctive decree and therefore fails to state facts upon which a claim for relief can be
22 granted as to her.

23 **(Lack of Jurisdiction)**

24 72. Defendant Zhou denies that the CFTC and the State have jurisdiction over the
25 foreign exchange contracts at issue in this action.

26 Dated: August 25, 2005

FRED S. KONIGSBERG
LAW OFFICES OF FRED S. KONIGSBERG

27 /s/Fred S. Konigsberg
Fred S. Konigsberg

28 Attorney for Defendant
Run Ping "Flora" Zhou

PROOF OF SERVICE

I declare that I am employed in the County of Orange, California. I am over the age of eighteen years and not a party to the within case; my business address is: 26054 Acero, Mission Viejo, CA 92691.

On August 25, 2005, I served the following document(s) described as:

Zhou Answer

on the following interested parties in this action:

KEVIN BATTEH
JAMES HOLL
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[x] (BY E-MAIL) with the consent of the aforementioned, to their email addresses as set forth in the Court's email e-file system.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed on August 25, 2005 at Mission Viejo, California.

Andrea Riggio
name

/s/ Andrea Riggio
signature